Research Paper

Accounting for Revenue
In the light of Accounting Standards

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Abstract:

This Paper discusses the accounting for revenue in terms of Accounting Standards, because of the importance of revenue number to users of financial statements in assessing an entity's financial performance and position.

Accordingly, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRSs ***(FASB, Project Updates, 2011).***

I will discuss in this paper the current accounting standards related to accounting for revenue, as well as the efforts of the Boards (FASB & IASB) to improve this standards, the problems of accounting for revenue & the lack of current accounting standards to solve these problems, in terms of the existing literature about accounting for revenue.

Keywords: Revenue, Revenue Recognition, Joint Project of the FASB & IASB.

1- Introduction:

Revenue is a crucial part of an entity's financial statements, Capital providers use an entity's revenue when analyzing the entity's financial position and financial performance as a basis for making economic decisions. Revenue is also important to financial statement preparers, auditors, and regulators ***(Putra, Jan. 23, 2010, p: 1)***.

However, revenue recognition requirements in U.S. generally accepted accounting principles (GAAP) differ from those in International Financial Reporting Standards (IFRSs), and both sets of requirements need improvement.

U.S. GAAP comprises broad revenue recognition concepts and numerous requirements for particular industries or transactions that can result in different accounting for economically similar transactions. Although IFRSs have fewer requirements on revenue recognition, the two main revenue recognition standards, IAS 18, *Revenue,* and IAS 11, *Construction Contracts*, can be difficult to understand and apply.

In addition, IAS 18 provides limited guidance on important topics such as revenue recognition for multiple-element arrangements.

So that the Boards (FASB & IASB) are proposing amendments to the *FASB Accounting Standards* and to IFRSs, respectively, & publishing the Exposure Draft (E.D.) in Nov. 14, 2011 *Revenue from Contracts with Customers*, to meet the following objectives ***(FASB, Project Updates, 2011)***:

1. Remove inconsistencies and weaknesses in existing revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Provide more useful information to users of financial statements through improved disclosure requirements.
5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

The Revenue Recognition is very important because it is providing information which helping for:

1- Measuring the level of economic activity of the unit.

2- Evaluation and assessment of the firm's profitability.

3- Evaluation of efficiency of the unit's management in using of available resources.

4- Evaluation and assessment of cash flows of the unit by the timing of revenue recognition.

2- key Definition:

- **Revenue:**

- According to the International Accounting Standard (IAS) No. (18) the Revenue was defined as: "the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity (such as sales of goods, sales of services, interest, royalties, and dividends)" ***(IASB, IAS 18.7, P: 405).***
- While the Exposure Draft defined it as: "**the Income** arising in the course of an entity's ordinary activities" ***(IASB, E.D. Jun. 2011, P: 51).***

- **Income:**

" Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants" ***(I bid., p: 51).***

- **Contract:**

" Is An agreement between two or more parties that creates enforceable rights and obligations" ***(I bid., p: 51).***

- **Contract Asset:**

" Is An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, when that right is conditioned on something other than the passage of time (for example, the entity's future performance)" ***(I bid., p: 51)***.

- **Contract Liability:**

" Is An entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer" ***(I bid., p: 51)***.

- **Performance Obligation:**

" Is A promise in a contract with a customer to transfer a good or service to the customer" ***(I bid., p: 51)***.

- **A Construction Contract**

" Is a contract specifically negotiated for the construction of an asset or a group of interrelated assets" ***(IASB, IAS 11.3, P: 214).***

3- Accounting Standards & Revenue:

Because of the important of revenue, the conceptual frameworks and accounting standards concerned to provide a guidance for the recognition of revenue in the financial statements, in particular international accounting standards and U.S. financial accounting standards.

The lack of guidance on accounting for revenue may result in manipulation by entity's management There are many forms of this manipulation, including:

1- Recognition of revenue without transferred to the buyer the significant risks and rewards of ownership.
2- Recognition of revenue Before delivering the good to the buyer, or
3- Recognition of revenue when delivered the good to a third part, without waiting until the delivery item to the buyer, etc.

This paper discusses only the following standards:

1- IAS No. (18) (Revised 1993): Revenue.
2- IAS No. (11) (Revised 1993): Construction Contract.
3- Statement of Financial Accounting Concepts (SFAC) No.(5) (1984): Recognition and Measurement in Financial Statements of Business Enterprises.
4- The Egyptian Accounting Standard No. (11): the Revenue.
5- The Egyptian Accounting Standard No. (8): Construction Contract.

3.1. Revenue Recognition:

Recognition, as defined in the IASB *Framework*, means incorporating an item that meets the definition of revenue in the income statement when it meets the following criteria ***(IASB, IAS no. 18):***

- it is probable that any future economic benefit associated with the item of revenue will flow to the entity, and
- the amount of revenue can be measured with reliability.

IAS 18 provides guidance for recognized the following specific categories of revenue:

Sale of Goods

Revenue arising from the sale of goods should be recognized when all of the following criteria have been satisfied: ***(IASB, IAS 18.14, p.p: 407- 408)***

- the seller has transferred to the buyer the significant risks and rewards of ownership
- the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the seller, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Rendering of Services

For revenue arising from the rendering of services, provided that all of the following criteria are met, revenue should be recognized by reference to the stage of completion of the transaction at the balance sheet date **(the percentage-of-completion method):** ***(IASB, IAS 18.20, p.p: 409- 410)***

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits will flow to the seller;
- the stage of completion at the balance sheet date can be measured reliably; and
- the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

When the above criteria are not met, revenue arising from the rendering of services should be recognized only to the extent of the expenses Recognized that are recoverable "a cost-recovery approach". ***(IASB, IAS 18.26, p: 411).***

Interest, Royalties, and Dividends

For interest, royalties and dividends, provided that it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognized as follows: ***(IASB, IAS 18.29-30, p: 412)***

- interest: using the effective interest method as set out in IAS 39
- royalties: on an accruals basis in accordance with the substance of the relevant agreement
- dividends: when the shareholder's right to receive payment is established.

According to SFAC Statement of Financial Accounting Concepts No 5, the recognition involves consideration of two factors ***(FASB, Con. 5.83, p.p: 21-22):***

(a) being realized or realizable and (b) being earned.

<u>Revenues and gains are **realized:**</u> when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash.

<u>Revenues and gains are **realizable:**</u> when related assets received or held are readily convertible to known amounts of cash or claims to cash.

<u>***Earned*. Revenues:**</u> when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

An entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations**.**

According to IAS (11), the revenue and costs should be recognized in proportion to the stage of completion of contract activity, If the outcome of a construction contract can be estimated reliably. This is known as the percentage of completion method of accounting. ***(IASB, IAS 11.22, p: 220).***

In September of 2002, the Boards (FASB & IASB) jointly adopted the Revenue Recognition Project. The Boards did this in order to address existing revenue recognition problems in U. S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The Boards are hoping to develop a single revenue recognition model using a recognition principle that can be applied consistently across different industries and to various transactions ***(Frank E. Ryerson, 2010, p:1).***

Where U.S. GAAP comprises broad revenue recognition concepts and numerous requirements for particular industries or transactions that can result in different accounting for economically similar transactions. Although IFRSs have fewer requirements on revenue recognition, the two main revenue recognition standards, IAS 18, *Revenue,* and IAS 11, *Construction Contracts,* can be difficult to understand and apply.

In addition, IAS 18 provides limited guidance on important topics such as revenue recognition for multiple-element arrangements.

Accordingly, the Boards published an Exposure Draft (E.D) in June. 2010 *Revenue from Contracts with Customers*, which have proposed a new revenue recognition model where revenues will be recognized based on changes in assets and liabilities (the asset & liabilities model), where the Boards decided to focus their initial efforts on the assets and liabilities that arise directly from a contract with a customer. They decided to focus on the contract itself for two reasons: ***(I bid, p.p: 2- 3)***

1- Contracts to provide goods and services are real world economic phenomena that are the lifeblood of most companies.

2- Most of the current revenue recognition literature focuses exclusively on contracts with customers.

The boards received nearly 1,000 comment letters on the 2010 exposure draft and, in response, have revised various aspects of the June 2010 proposals.

Although those revisions did not necessitate re-exposure for public comment in accordance with the boards' due process procedures, the boards decided to re-expose the proposals because of the importance to all entities of the financial reporting of revenue and the desire to avoid unintended consequences of the final standard.

In Nov, 2011 the Boards issued for public comment a revised draft standard to improve and converge the financial reporting requirements of International Financial Reporting Standards (IFRSs) and US General Accepted Accounting Principles (GAAP) for revenue (and some related costs) from contracts with customers.

The core principle of this revised proposed standard is the same as that of the 2010 exposure draft: that an entity would recognize revenue from contracts with customers when it transfers promised goods or services to the customer. The amount of revenue recognized would be the amount of consideration promised by the customer in exchange for the transferred goods or services. & to achieve that core principle, an entity would apply all of the following steps:

(IASB, E.D 2011, IN 9 – IN 27, P.P: 7-12)

Step 1— Identify the contract with a customer: (written, oral /verbal, or implied).

Step 2— Identify the separate performance obligations in the contract; (may be explicit or implied). .

Step 3— Determine the transaction price: (the amount of consideration expected to be received).

Step 4— Allocate the transaction price to the separate performance obligations in the contract: (on a relative stand-alone selling price basis. If it is not observable, an entity would estimate it).

Step 5—Recognise revenue when (or as) the entity satisfies a performance obligation: (requires the transfer of control on the good or service).

In particular the boards make some changes in the revised draft, where the Boards:

- added guidance on how to determine when a good or service is transferred over time;
- simplified the proposals on warranties;
- simplified how an entity would determine a transaction price (including collectability, time value of money, and variable consideration);
- modified the scope of the onerous test to apply to long-term services only;
- added a practical expedient that permits an entity to recognize as an expense costs of obtaining a contract (if one year or less); and
- Provided exemption from some disclosures for non-public entities that apply US GAAP.

If adopted, the proposed standard would replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related Interpretations. In US GAAP, it would replace the guidance on revenue recognition in Topic 605 of the FASB Accounting Standards.

The E.D, which introduces a five- step performance obligation model, proposes significant changes to the measurement, classification, & potentially, the timing of recognition of revenue & related transactions, such as warranty costs, returns & allowances, provisions for uncollectible accounts, & multiple deliverables ***(James Marianne L., 2011, P: 27).***

There are a study proposes an accounting for revenues as an alternative to the proposals currently being aired by the FASB and IASB, & offered two alternative approaches to recognize of revenue: ***(James A. Ohlson, et.all., sep. 2011, p: 577).***

1) the complete contract method (where profit is recognized only on the termination of a contract) and
2) the profit margin method (where a profit margin is applied to recognized revenues throughout the contract as the contract profit margin becomes clear).

& find that the latter requires resolution of uncertainty, so the completed contract method is the default.

This study proposed a model for accounting of revenue, this accounting in its core set up, involves one single rule for revenue recognition and two alternative approaches for related (gross) profit/loss recognition as the following: ***(I bid, p: 581)***

_ Revenue recognition:

Customer payments constitute a necessary and sufficient condition.

_ Profit recognition:

(a) The completed contract method: the gross profit is recognized at the date of contract completion.

(b) The profit margin method: the cumulative profit recognized is determined by the estimated percentage profit margin applied to cumulative revenues recognized. However, the cumulative profit recognized cannot exceed the cumulative revenues minus cumulative expenditures incurred.

_ Loss recognition:

(a) The completed contract method: if, at any point, the contract is expected to incur a loss, then the loss must be recognized. A (partial) reversal in light of subsequent information is not allowed.

(b) The profit margin method: If, at any point, the contract is expected to incur a loss, the loss must be recognized. Partial reversals are allowed in light of subsequent new information.

3.2. Measurement of Revenue:

According to IAS (18): Revenue should be measured **at the fair value** of the consideration **received or receivable**. ***(IASB, IAS 18.9, P: 406),*** An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, exchanges for dissimilar items are regarded as generating revenue. ***(IASB, IAS 18.12, P.P: 406- 407)***

If the inflow of cash or cash equivalents is deferred, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received, and discounting is appropriate. This would occur, <u>for instance</u>, if the seller is providing interest-free credit to the buyer or is charging a below-market rate of interest. Interest must be imputed based on market rates. ***(IASB, IAS 18.11, P: 406)***

According to the E.D. 2011**,** an entity shall **Recognize as revenue the amount of the transaction price allocated to that performance obligation,** When (or as) a performance obligation is satisfied. If the amount of consideration to which an entity expects to be entitled

is variable, the cumulative amount of revenue an entity recognized to date shall not exceed the amount to which the entity is reasonably assured to be entitled ***(IASB, E.D 2011- 49, P.P: 31)***

There are two primary approaches for measuring performance obligations at contract inception were considered by the Boards: ***(Frank E. Ryerson, 2010, p.p: 4- 6)***

(1) current exit price approach: it was also referred to as the “fair value” or “measurement” model in earlier deliberations by the Boards, &

(2) original transaction price approach: it had been known as both the “allocation” model and the “customer consideration” model.

<u>The current exit price model:</u> Under this model, the entity’s contract asset or liability is measured at its current exit price. This is the amount that the entity would expect to receive or pay to transfer its remaining contractual rights and obligations to a market participant at the reporting date.

The Boards set forth four main reasons for favoring the current exit price method ***(I bid., p: 5):***

1) It reflects the future cash flows associated with the remaining rights and obligations of the contract, no more, no less;
2) The measurement includes a margin at each measurement date for all of the remaining contractual obligation;
3) The measurement is current;
4) The measurement enhances comparability.

<u>Original transaction price model:</u> the transaction price is the amount which the entity requires in exchange for taking on the related performance obligations, this amount implicitly includes the expected costs to transfer the promised goods and services, the timing of those costs, and the margin required for providing those assets. Unlike exit price, the transaction price also includes any amounts that the entity charges its customers to recover the costs of obtaining the contract and any related margin.

The supporter of this approach believing that it provides a better depiction of the entity’s performance in a contract, because revenue is only recognized when an entity transfers an asset to the customer under the contract. They view the transaction price as applying only to the goods and services to be provided under the contract. ***(I bid., p: 6)***

3.3. Disclosure Requirements:

According to IAS (18) the entity should disclose: ***(IASB, IAS 18. 35, P: 413)***

- accounting policy for Recognized revenue
- amount of each of the following types of revenue:
  - sale of goods
  - rendering of services
  - interest
  - royalties
  - dividends
  - within each of the above categories, the amount of revenue from exchanges of goods or services

According to IAS (11) the entity should disclose: ***(IASB, IAS 11. 39 - 40, P: 225)***

- amount of contract revenue recognized;
- method used to determine revenue;
- method used to determine stage of completion, and
- for contracts in progress at balance sheet date:
  - aggregate costs incurred and recognised profit
  - amount of advances received
  - amount of retentions

The proposed requirements in E.D. 2011 specify various disclosure requirements that would enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity would disclose qualitative and quantitative information about all of the following: ***(IASB, E.D 2011, IN 33, P:13)***

(a) its contracts with customers (including a reconciliation of contract balances);

(b) the significant judgements, and changes in judgements, made in applying the proposed requirements to those contracts; and

(c) any assets Recognized from the costs to obtain or fulfil a contract with a customer.

4- The Problems of Accounting for Revenue:

The Problems of accounting for revenue are the most important reasons for re-statements, where an research find that there are about 38% of the cases of re-statements in some firms related to the problems of accounting for revenue, And half of this percentage regarding to the problems of the timing of revenue recognition, and the other half due to report on the unreal revenues by the Company ***(Henry, E. & Holzmann, O., 2009, P: 77).***

There are certain problems currently found in the application of the general principles of revenue recognition, which can sometimes lead to fraudulent reporting, such as the following problems:

4.1. Barter Transactions:

Barter transactions: is non-monetary exchanges including similar or dissimilar goods or services, If similar goods or services are exchanged then no revenue would be recognized. For dissimilar goods or services fair values are used for revenue recognition purposes. This is designed to avoid transactions such as capacity swaps ***(Putra, march 7, 2009, p: 7).***

The problem here is that in the recent years there have been many reports of transactions that appear to have been concocted merely to create the illusion of revenue-generating activities. Examples include advertising swaps engaged in by some entities, most commonly “dot-com” enterprises, under “indefeasible right to use” agreements, These enterprises recognize revenue in exaggerated manner by immediate recognition of revenues coupled with deferred recognition of costs, and typically, in aggregate, were equal exchanges not providing profits to either party. Furthermore, these examples do not represent culminations of the normal earnings process (e.g., fiber-optic networks were built in order to sell communications services to end users, not for the purpose of swapping capacity with other similar operations) ***(Putra, Nov. 15, 2008, p.p: 2- 3).***

4.2. Real Estate Transactions:

Revenue can be recognized either at the point of contract exchange or on the completion of contracts. To many familiar with property transactions this appears reasonable enough. However, be aware of the flexibility this provides. For example the directors of a company might change their accounting policy to reflect contract revenues on an exchange basis as against the previous completion policy. This would result in an influx of profits that would otherwise have been deferred to future periods & Contrary to the economic reality of this transaction ***(Putra, March 7, 2009, p: 6).***

4.3. Sale with a right of return:

In some contracts, an entity transfers control of a product to a customer and also grants the customer the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following**: *(IASB, E.D 2011, B 2, P: 52).***

(a) a full or partial refund of any consideration paid;

(b) a credit that can be applied against amounts owed, or that will be owed, to the entity &

(c) another product in exchange.

There are some main pointes about the right of return, these are: ***(James Marianne L., 2011, P: 30)***

- The right of return is not considered a separate performance obligation.
- Revenues recognized only for goods or services not expected to be returned.
- Return estimate recognized as liability.
- Related inventory cost is recognized as right of return asset.

The risk here is that revenues are recognized and then the customer effectively cancels the sale, there by challenging the assumption that the revenue recognition criteria have been met. If an enterprise is exposed to predictable returns then it is probable that the full amount of revenue can be recognized and a provision made separately for the cost of the returns. If how ever there is a significant amount of unpredictable returns then it may be that revenue recognition must be postponed until the patterns of return become more predictable ***(Putra, march 7, 2009, p: 7).***

It should be noted that the E.D 2011 provided guidance on accounting for this topic were as follows: ***(IASB, E.D 2011, B 3- B 9, P. P: 53- 54)***

To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

1) revenue for the transferred products in the amount of consideration to which the entity is reasonably assured to be entitled (considering the products expected to be returned);
2) a refund liability
3) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability

4.4. Warranties:

It is common for an entity to provide (in accordance with the contract, the entity's customary business practices or the law) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across industries and contracts. Some warranties provide a customer with assurance that the related product complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications ***(IASB, E.D 2011, B 10, P: 54).***

The problem here is how much of the initial revenues should be allocated to the warranty and spread over its lifetime. In essence the question is: has the warranty been earned? If it has been earned at the point of sale then all of the warranty revenue would qualify for immediate recognition, with a provision being made for the potential future costs of the repairs ***(Putra, march 7, 2009, p: 6).***

It should be noted that the warranty is not considered a separate performance obligation.

The E.D 2011 provided guidance on accounting for this topic were as follows: ***(IASB, E.D 2011, B 11- B 15, P.P: 54- 55)***

1- If a customer has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), an entity shall account for the promised warranty as a separate performance obligation because the entity promises to provide a service to the customer in addition to the product. Hence, the entity shall allocate a portion of the transaction price to the performance obligation for the service.

2- If a customer does not have the option to purchase a warranty separately, the entity shall account for the warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, unless the promised warranty, or a part of the promised warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

3- If a warranty, or a part of a warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, that promised service is a separate performance obligation. Hence, an entity shall allocate the transaction price to the product and the service. If an entity promises both an assurance and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

4.5. Principal versus agent considerations:

When other parties are involved in providing goods or services to an entity's customer, the entity shall determine whether its performance obligation is to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for another party to provide those goods or services (i.e. the entity is an agent) ***(IASB, E.D 2011, B 16, P: 55).***

That determination affects whether the entity recognises revenue in the gross amount of consideration to which the entity is entitled in exchange for those goods or services (if a principal) or in the amount of any fee or commission received in exchange for arranging for the other party to provide its goods or services (if an agent). An entity's fee or commission might be the net amount of consideration that the entity retains after paying other parties for providing their goods or services to the customer ***(I bid, p: 55).***

The problem here is that in the recent years there have been increasing reports of enterprises that inflate revenues reported in their income statements by reporting transactions on a "gross" basis, notwithstanding that the entity's real economic role is as an agent for buyer and/or seller. This distortion became widespread in the case of Internet companies and other start-up and innovative businesses typically not reporting earnings, for which market valuations were heavily influenced by absolute levels of and trends in gross revenues. Reporting revenues "gross" rather than "net" often had an enormous impact on the perceived value of those enterprises ***(Putra, Nov. 15, 2008, p:1).***

It should be noted that the E.D 2011 provided guidance on accounting for this topic ***(to more details see: IASB, E.D 2011, B 17- B 19, P: 56)***

4.6. non-refundable upfront fees:

In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, activation fees in telecommunication contracts, set-up fees in some services contracts and initial fees in some supply contracts ***(IASB, E.D 2011, B 29, P: 58).***

The problem here is: are there a performance obligations we should recognize to provide this future services?, Or deferred the recognition of revenue until providing goods or services? Or recognition throughout the contract?.

It should be noted that the E.D 2011 provided guidance on accounting for this topic ***(to more details see: IASB, E.D 2011, B 30- B 32, P.P: 58- 59).***

There are many other problems for revenue such as*: (to more details see: IASB, E.D 2011, B 20- B 58, P.P: 56- 64).*

- Customer options for additional goods or services.
- Customers' unexercised rights.
- Licensing and rights to use (Intellectual property).
- Sale & repurchase agreements.
- Consignment arrangements.
- bill-and-hold arrangements.
- Customer acceptance.

5- The Lake of current Accounting Standards:

The accounting for revenue required a correctly reported for revenue in financial statements. Despite the existence of guidance in the accounting standards for revenue but the application has shown deficiencies in these guidance, because of the changes in business environment, the difficulty of applying the conditions or requirements of revenue recognition and measurement.

There are many studies addressed the lack of current accounting standards such as ***(James A. Ohlson, et.all., sep. 2011)*** & ***(Putra, Jan. 24, 2010).***

The revenue recognition requirements in U.S. generally accepted accounting principles (GAAP) differ from those in International Financial Reporting Standards (IFRSs), and both sets of requirements need improvement.

U.S. GAAP comprises broad revenue recognition concepts and numerous requirements for particular industries or transactions that can result in different accounting for economically similar transactions. Although IFRSs have fewer requirements on revenue recognition, can be difficult to understand and apply, In addition, this standards provides limited guidance on important topics such as revenue recognition for multiple-element arrangements.

So that the Boards (FASB & IASB) are proposing amendments to the *FASB Accounting Standards* and to IFRSs, respectively, Because the Boards found that the existing revenue recognition rules are vague, resulting in messy application, so the Boards publishing the Exposure Draft (E.D.) in Nov. 14, 2011 *Revenue from Contracts with Customers*, to meet the following objectives ***(FASB, Project Updates, 2011)***:

1) Remove inconsistencies and weaknesses in existing revenue requirements.

2) Provide a more robust framework for addressing revenue issues.

3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.

4) Provide more useful information to users of financial statements through improved disclosure requirements.

5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer..

But this proposal draft replace the traditional criteria—revenue is recognized when it is both ‘‘realized or realizable’’ and ‘‘earned’’—with similarly vague notions that require both the identification of a ‘‘performance obligation’’ and the ‘‘satisfaction’’ of a performance obligation. ***(James A. Ohlson, et.all., sep. 2011, p: 577).***

And also there are a study found that the Boards E.D is remiss on paying enough attention to:***(I bid, p: 590)***

1- what should be the basic transactions and events on which the accounting must rest, and
2- how the input maps into recognition and measurement rules.

6- Conclusion:

The Revenue is an important number to users of an entity’s financial statements, Capital providers use an entity’s revenue when analyzing the entity’s financial position and financial performance as a basis for making economic decisions. Revenue is also important to financial statement preparers, auditors, and regulators.

The existence accounting standards' guidance are not enough to solving the problems of accounting for revenue.

There is ample room for a ‘‘new-and-improved’’ FASB-IASB standard that differs substantially from the current document. ***(I bid, p: 590)***

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